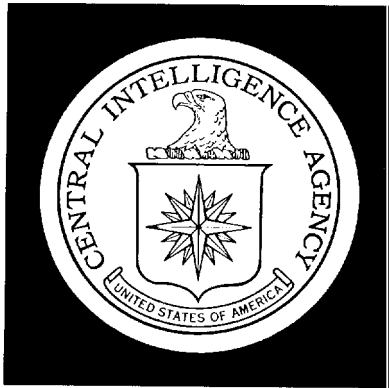


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DIRECTORATE OF  
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# *Central Intelligence Bulletin*

## CONTENTS

USSR-US-CHINA: The Pravda article. (Page 1)

INTERNATIONAL MONETARY DEVELOPMENTS: The US dollar remains weak. (Page 3)

PORTUGAL: Crackdown on labor leaders. (Page 4)

LIBERIA: Tolbert is consolidating his position. (Page 5)

NICARAGUA: Agreement on a three-man presidency. (Page 6)

PHILIPPINES: Settlement of strike at Clark Air Base (Page 7)

SECRET

SECRET

USSR-US-CHINA: Yesterday's lengthy Pravda article suggests that the Soviets are hedging their bets in their treatment of the recent contacts between Washington and Peking. In an unusually balanced assessment, Pravda conceded that "progressive" as well as negative forces have been responsible for encouraging US moves toward China.

The author of the article, Georgy Arbatov, director of the USA Institute of the Academy of Sciences, balanced standard and expected Soviet suspicions of the US initiative by the admission that "progressive" and liberal circles in the US had long advocated such a move. He also made the surprising allegation that past imperialist (read US) policy aimed at isolating and creating difficulties for China had to share blame with the Chinese leadership for that country's recent "trials." Arbatov was careful, however, to warn against "unscrupulous diplomatic maneuvers" which could upset delicate dialogues between the US and the USSR. He observed that there were grounds for believing that, except in relations with China, US policy would remain as "obstinate" as before.

In an attempt to come to grips with the origins of current US-China policy, Arbatov speculated that desire for domestic political gain, for distracting attention from pressing domestic problems, and for delaying an end to the Vietnam war all were factors shaping the US initiative. In addition, he took note of the political differences and uncertainties between Peking and Washington, commenting that these will increasingly come out into the open as the development of Sino-American relations approaches the stage of political decisions. He concluded that practical deeds toward the USSR and world problems would ultimately furnish the answer to what lies behind the changes in US policy and to what line will finally emerge as a result of the struggle between the various forces and motives shaping US-China policy.

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11 Aug 71

Central Intelligence Bulletin

1

SECRET

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The surprising inclusion of both the pros and the cons in Pravda along with the cautionary note that a future path of Sino-US harmony is by no means assured may be intended to put the recent steps in Sino-US relations in perspective and to assure the Soviet reader that there is not yet a reason for deep concern. In addition, the article's inconclusive nature may indicate a difference of opinion in Moscow on the implications of events. In any case, Arbatov's article indicates that, while Moscow is deeply suspicious of these developments, it is aware that Peking and Washington still have many problems to solve and is reserving its final judgment until it sees how events develop. [REDACTED]

25X1

11 Aug 71

*Central Intelligence Bulletin*

2

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INTERNATIONAL MONETARY DEVELOPMENTS: The US dollar remains weak following heavy speculative activity touched off in part by press reports of a US congressional subcommittee conclusion that a devaluation might be necessary.

The European exchange markets have become unusually sensitive, in light of the publicized deterioration of the US trade balance, to suggestions from US sources that the dollar is overvalued. Aside from the European gold markets, the brunt of this dollar flight has been absorbed by the German and, for a brief period, the Swiss exchange markets. The floating mark is selling at a seven-percent premium over its original dollar parity. After taking in several hundred million dollars in early trading on Monday, the Swiss National Bank followed the French lead of last week and imposed stringent controls over continued inflows of speculative money.

The price of gold on the London market, which rose by more than a dollar on Monday, dropped to \$43.25 yesterday. At some level the price of gold could become sufficiently high to pose a threat to the two-tier system, where monetary authorities deal in gold at \$35 per ounce, but supply and demand determine the free market price.

There is little reason to expect much strengthening of the dollar in foreign exchange markets or a significant reduction in the price of gold without some improvement in the US basic balance of payments, particularly on trade account. [REDACTED]

[REDACTED]

25X1

11 Aug 71

Central Intelligence Bulletin

3

SECRET

SECRET

PORTUGAL: Despite strong labor protest, the government is continuing a crackdown begun last June on individuals it accuses of Communist-linked activity.

The Portuguese minister of interior recently closed the headquarters of the Bank Workers' Union in both Lisbon and Oporto because of protests against the arrest on 30 June of the union's former president, Daniel Cabrita. The government linked Cabrita with the Communist-operated Armed Revolutionary Action (ARA) terrorist group. Because of continued demonstrations which led to the arrest of several other opposition union officials, the government subsequently decided to replace the bank union's leadership.

Union protests over the arrest of Cabrita have taken such forms as work slowdowns, refusals to work overtime, and street demonstrations. One protest in Lisbon resulted in the hospitalization of nine syndicate members. Cabrita is popular with labor because of his success in obtaining wage increases. There is widespread feeling among union members that he is being persecuted for defending worker interests.

Although the measures imposed thus far have already alienated the labor sector to a serious degree, Prime Minister Caetano may believe it important to take a strong stance on a "law and order" issue now in order to placate right-wingers who have been dissatisfied over the past year with the prime minister's efforts at constitutional reform. A move against such groups as the ARA, which has claimed responsibility for several terrorist bombings over the last year, would be popular with the rightists. [REDACTED]

[REDACTED]

25X1

11 Aug 71

Central Intelligence Bulletin

4

SECRET

SECRET

LIBERIA: President Tolbert is consolidating his position as successor to the late president Tubman.

During the two weeks since Tubman's death, the former vice president has acted cautiously to improve his public image, conciliate opponents, and emphasize his intention to continue the policies of his predecessor. Personnel changes have so far been held to a minimum, adding to the impression of continuity that Tolbert is trying to cultivate. Moreover, his popular image as a viable successor to Tubman has been strengthened by the smoothness of the immediate transition of power and by the continued absence of any serious public challenge to his authority.

Behind the scenes, Tolbert has faced some incipient challenges, but these appear to be losing steam. Individuals who had earlier voiced anti-Tolbert views are softening their criticism and some even maintain they have always been "friendly" with Tolbert. This bandwagon effect should continue unless the new President alienates party leaders or seriously misuses his power, thereby rekindling doubts about his leadership abilities.

The complicated legal question of how long Tolbert may govern before facing elections has been solved to the new President's satisfaction, [REDACTED]

[REDACTED] an agreement has been reached to hold an election only for a new vice president, who will then be inaugurated with Tolbert next January for the four-year term to which Tubman and Tolbert were elected last May. Tolbert's opponents had argued that he must face elections because his mandate as constitutional successor applied only to Tubman's current term, which would have ended in January.

Tolbert is expected to continue his cautious pace for the foreseeable future, as he tries to make the political system responsive to his own direction. Some personnel and minor policy changes are bound to come, however, once the immediate testing period is over and Tolbert's position becomes more secure.

[REDACTED]

11 Aug 71

Central Intelligence Bulletin

5

SECRET



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NICARAGUA: President Somoza reportedly has agreed to let the leader of the opposition Conservative Party serve on the three-man presidency during the 1972-74 constituent assembly period.

This latest accord is the result of continuing discussions between Somoza and Conservative Party leader Fernando Aguero concerning the transitional unity government that will take over when Somoza's term expires next May. The membership of the executive troika--one Conservative and two Liberals--originally excluded the two party leaders. In agreeing that Aguero may occupy the Conservative seat, Somoza reiterated that neither of the Liberal seats will be taken by a Somoza, thus barring both himself and his half brother. The Liberal members are expected to include an elder statesman and someone from the younger wing of the party. Both assuredly will be loyal Somoza supporters.

The interim government is designed to allow the ruling Liberal Party and its Conservative opposition a chance to review and amend the constitution and time to prepare the country for general elections in 1974 under a more viable two-party system. Generous as Somoza's concessions appear to be, Aguero is still outnumbered two to one on the troika, and Somoza's control of its activities is virtually assured. [REDACTED]

[REDACTED]

25X1

11 Aug 71

Central Intelligence Bulletin

6

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PHILIPPINES: The two-week strike of Filipino workers at Clark Air Base was settled on 8 August. Manila and local officials were unstinting in their assistance to base authorities, and the radical union leadership has been discredited by its manipulation of the strike for political ends. Base authorities would now like to withdraw recognition of the union, but Philippine officials have cautioned against this, arguing that the union rank and file are more likely to vote out their present leaders without a US response. The official support for the US position through the episode demonstrated anew that, when the chips are down, Philippine appreciation of the economic and security advantages of the US military presence outweighs nationalistic rhetoric against it.

25X1

11 Aug 71

Central Intelligence Bulletin

7

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